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UNCLAS RANGOON 001248

SIPDIS

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STATE FOR EAP, EB  
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COMMERCE FOR ITA JEAN KELLY  
TREASURY FOR OASIA JEFF NEIL  
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E.O. 12958: N/A

TAGS: [EINV](#) [ETRD](#) [BM](#)

SUBJECT: BURMESE INVESTMENT CLIMATE STILL HOSTILE

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[11](#). (U) As a companion to the recently submitted Burma investment climate statement, we want to summarize the key problems that plague the country. The full text of the investment climate statement will be posted on the National Trade Data Bank and is available via email from [wohlauerbv@state.gov](mailto:wohlauerbv@state.gov).

[12](#). (SBU) New U.S. investment in Burma has been illegal since [1997](#). Burma is a country blessed with extensive natural resources, low labor costs, and a great potential for tourism. It is also an ASEAN member. However, even if sanctions were removed, an extraordinarily hostile investment climate would hold U.S. investment -- as it has held all other investment -- to a very low level. In Burma's FY 2001-02, flows of investment dropped nearly 90 percent from the previous fiscal year to only \$17.46 million for seven projects.

[13](#). (SBU) Burma's investment laws are relatively liberal, but their implementation is racked, at all levels, with corruption. The ruling military junta, the State Peace and Development Council (SPDC), has promised an "open door" economic policy and urged foreign firms to invest, but regularly comes out with punitive and capricious regulations, which make investment for foreigners difficult if not possible. The regulations are so vague and so conflicting that it is almost impossible for an investor to be fully confident that it is doing business "legally."

[14](#). (SBU) Some lowlights of the past year: (1) an oral directive forbidding renewal of existing trading permits, or issuance of new ones, for foreign firms; (2) a increasing disparity between the official exchange rate (6 kyat to the dollar) and the market rate (1300 to the dollar and falling); (3) continuing restrictions on the use of foreign exchange for imports unless the imports are matched by exports; (4) government expropriation of a foreign firm without compensation; and, (5) increasing consumer boycotts in the United States and Europe on products made in Burma.

[15](#). (SBU) Barring significant practical change, we do not expect Burma's investment climate to improve. We have not seen any movement toward reform in recent years and expect none in the immediate future. In fact, if recent events are any indication, the situation for investors will most likely deteriorate in the period immediately ahead.

Martinez